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SUBJECT: SWEDISH FINANCE MINISTER ON FINANCIAL CRISIS,
SWEDISH BANKS AND THE BALTICS

REF: STATE 23758

¶1. (SBU) Summary: On March 16, Swedish Finance Minister Anders Borg told Treasury DAS Meyer and CDA the following regarding the financial crisis, Swedish banks and the Baltics:

- Swedish banks can absorb further losses given their profitability in recent years. The Swedish financial sector is stable.

- Sweden does not possess full knowledge of the domestic Latvian and Lithuanian banking sectors outside the Swedish banks' subsidiaries.

- The IMF should continue to play a leading role in the region. Lithuania should turn to the IMF for a program.

- The EU is not a single group; some members want to help the Baltics while others do not.

- All three Baltic states should be treated equally; Sweden would have to support Lithuania before giving more financing to Latvia.

- The Baltics problem is far from over, but Sweden is pleased the U.S. is taking an active interest in the issue.

End Summary.

¶2. (SBU) Swedish Finance Minister Anders Borg told CDA and Treasury DAS for Europe and Eurasia Eric Meyer on March 16 that Swedish banks have a number of domestic problems to resolve in addition to their exposure in the Baltics, but that the Swedish financial sector remains stable. Borg commented that the Swedish economy contracted by nearly five percent year on year in the fourth quarter of 2008, and that industrial production in January 2009 was down 23 percent from a year earlier. He stated that everything depends on the international market and added that Swedish banks can absorb the losses because Swedish consumers are "picking up the bill." Borg stated that Sweden might need to set aside large sums of money to recapitalize parent company banks, which would then recapitalize their Baltic subsidiaries. "We need to do more for our own banking system," Borg opined. Earlier in the week, Borg told journalists that he expected the current financial crisis to continue into 2010 with "aftershocks to occur in 2011 and 2012."

¶3. (SBU) Borg stated that Sweden doesn't have full knowledge of the Latvian and Lithuanian domestic banking sectors outside of the Swedish banks' subsidiaries, adding that a lack of transparency makes it difficult to evaluate their domestic banking practices. He commented that Sweden might need to provide additional financial resources if Latvia continues to defend the Lat, but that Sweden cannot do much more than that. He indicated that Sweden might need to provide additional support to Lithuania. Borg said that

Sweden would need to "lean on" Brussels to help Latvia should it need more support, rather than provide Latvia more bilateral financing. Borg noted that the IMF's process with Latvia was unnecessarily costly politically, which has spilled off on Lithuania, making it reluctant to approach the fund. Nonetheless, he said that the EU and the Nordics believe Lithuania should turn to the IMF. Borg stated that the IMF should continue to play a lead role in the region. When asked about his views on an early Euro zone entry for Latvia, Borg replied that it must be a Latvian decision alone. Borg stated that the EU is not a single group. Some members want to help the Baltics, while others do not. Borg said all three Baltic states should be treated equally, but that he is less worried about Estonia. He said that even though Swedish banks account for 90 percent of the lending of Estonia the country is politically stable. Borg noted that the Baltics problem is "far from over," and that he is "pleased that the U.S. is taking an active interest in this issue."

Background on Swedish banks' exposure to the Baltics

¶4. (SBU) According to figures released by the Swedish Financial Supervisory Authority (SFSA), Swedish banks' lending in the Baltics amounts to \$58.2 billion, including \$80 billion for Nordea, \$200 billion for SEB and \$220 billion for Swedbank. Swedbank has 17 percent of its total lending in the Baltics, followed by SEB with 12 percent and Nordea with three percent. Swedbank's operating income fell by 41 percent in the fourth quarter of 2008 from the same period in 2007, while SEB's dropped by 12 percent. SFSA analyst Masih Wazdi of the Swedish Financial Supervisory Authority

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stated that while the exposures are large in absolute numbers, lending to the Baltics represents less than 10 percent of the Swedish banking sector and "does not pose a threat to the Swedish economy as a whole."

¶5. Post will report Treasury DAS Meyers' additional visits septel.

¶6. Treasury has cleared this cable.
SILVERMAN